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National Association of Purchasing Management

Report On Business®

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# New Orders Up Sharply

# Purchasing Index Rises to 53.9%

# Employment Increases

**Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.**

**The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.**

## March Report

The economy continued its growth in March at an improved rate over February, say the nation's purchasing managers in their latest **Report on Business.** The improvement was evident in all indicators except inventories, which declined slightly. New orders increased sharply in March. Production was also higher. Vendor deliveries slowed, another sign that the economy improved in March. Employment expanded for the first time since August 1984. Fifty percent of purchasing managers said they were paying higher prices in March then at the end of 1986. Of those paying higher prices now, the average increase is 2.5%. The estimated average price increase anticipated by members for the remainder of 1987 is 2.1%. So, while prices continue to increase, most purchasers do not see them as being significant.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "The economy ended the first quarter with healthy, if not substantial, improvement. The sharp rise in the growth of new orders assures a good beginning for the second quarter."

The **Purchasing Managers' Composite Index** increased by two points to 53.9% from 51.9% in February. The first quarter average for this leading indicator is also 53.9%. Past experience indicates that if this average were to continue for the remainder of 1987, it would be consistent with real GNP growth of about 3%. Last year's Purchasing Managers' Composite Index average of 51.1% tracked accurately to real GNP growth, based on analysis by the U.S. Department of Commerce. A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

### Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

### Employment

Employment increased in March after 29 consecutive months of decline. The 16% reporting higher employment is the most since March 1985 (also 16%). The 14% reporting lower employment is the lowest since September 1984 (also 14%). The last time employment was reported increasing was in August 1984 (also +2%).

| Employment % | Higher | Same | Lower | Net Differ. |
|---|---|---|---|---|
| March | 16 | 70 | 14 | + 2 |
| February | 12 | 68 | 20 | − 8 |
| January | 13 | 67 | 20 | − 7 |

### Buying Policy

Consistent with the strengthening economy, lead times for production materials lengthened for the second consecutive month as the number of members reporting lead times of 30 days or less decreased to 55% from 57% in February and 59% in January. Lead times for maintenance, repair and operating (MRO) supplies were slightly longer as 87% of members reported lead times of 30 days or less, up from 85% in February. Lead times for capital expenditures were somewhat less as the number of members reporting lead times of 6-months-and-longer declined to 56% from 57% in February, and the number reporting lead times of 90 days dropped to 14% from 18% in February.

| | Hand to Mouth | 30 Days | 60 Days | 90 Days | 6 Months and Longer |
|---|---|---|---|---|---|
| **Production Materials %** | | | | | |
| March | 18 | 37 | 26 | 13 | 6 |
| February | 17 | 40 | 22 | 15 | 6 |
| January | 17 | 42 | 25 | 10 | 6 |
| **MRO Supplies %** | | | | | |
| March | 44 | 43 | 8 | 3 | 2 |
| February | 45 | 40 | 9 | 5 | 1 |
| January | 50 | 38 | 6 | 5 | 1 |
| **Capital Expenditures %** | | | | | |
| March | 13 | 5 | 12 | 14 | 56 |
| February | 13 | 4 | 8 | 18 | 57 |
| January | 12 | 3 | 10 | 18 | 57 |

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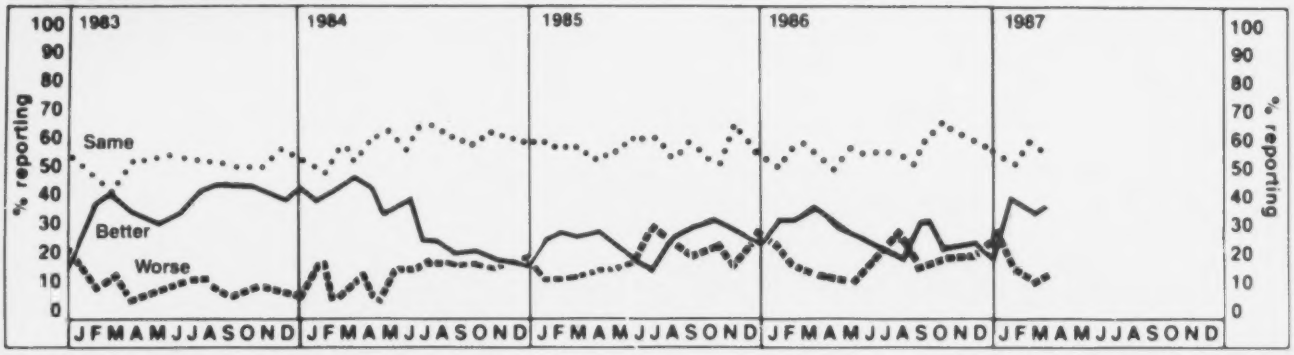
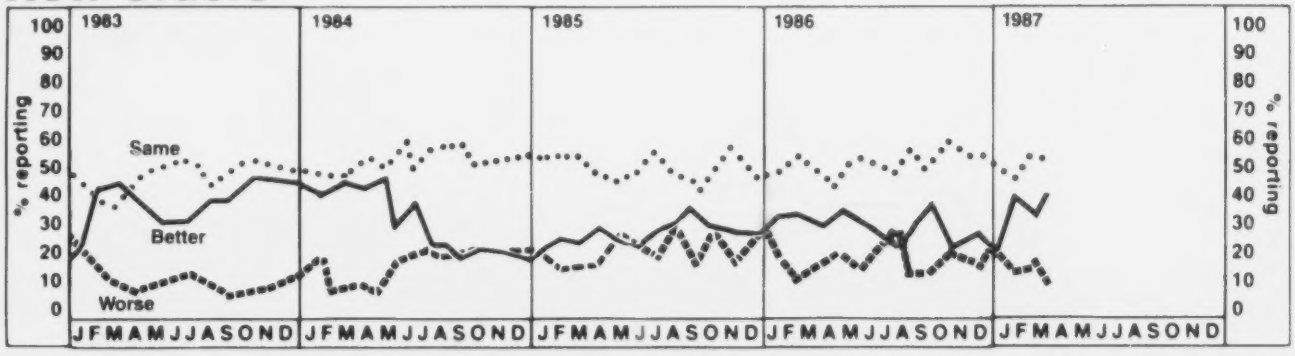
# Production




Production was slightly improved in March over February. For the second consecutive month, the number of members reporting production as better (34%) was more than three times those reporting worse (11%).

| Production % | Better | Same | Worse | Net |
|---|---|---|---|---|
| March | 34 | 55 | 11 | +23 |
| February | 31 | 60 | 9 | +22 |
| January | 37 | 51 | 12 | +25 |

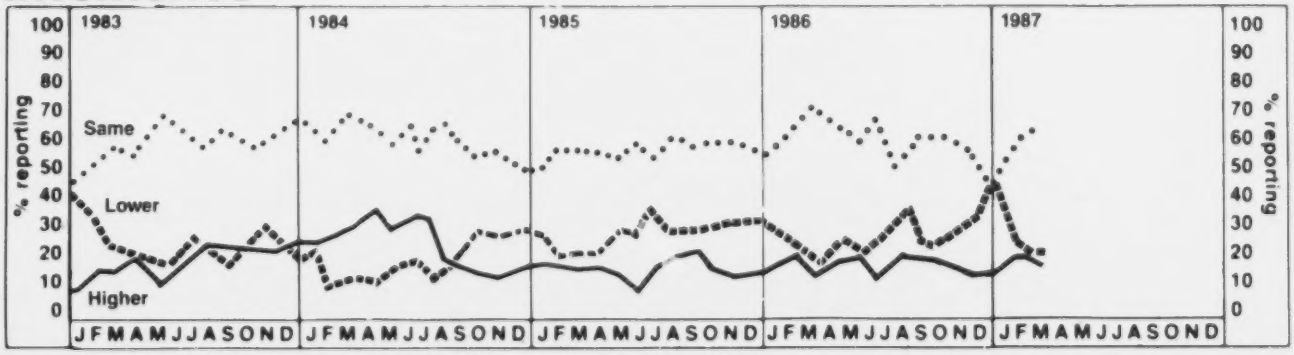
# New Orders




New orders advanced at a faster pace in March. The 41% reporting new orders as better is the highest total since April 1984 (46%). The net difference between those reporting better (41%) and worse (9%) increased to 32%, also the largest since April 1984 (+40%). This signals there will be an increase in production for April.

| New Orders % | Better | Same | Worse | Net |
|---|---|---|---|---|
| March | 41 | 50 | 9 | +32 |
| February | 33 | 51 | 16 | +17 |
| January | 40 | 45 | 15 | +25 |

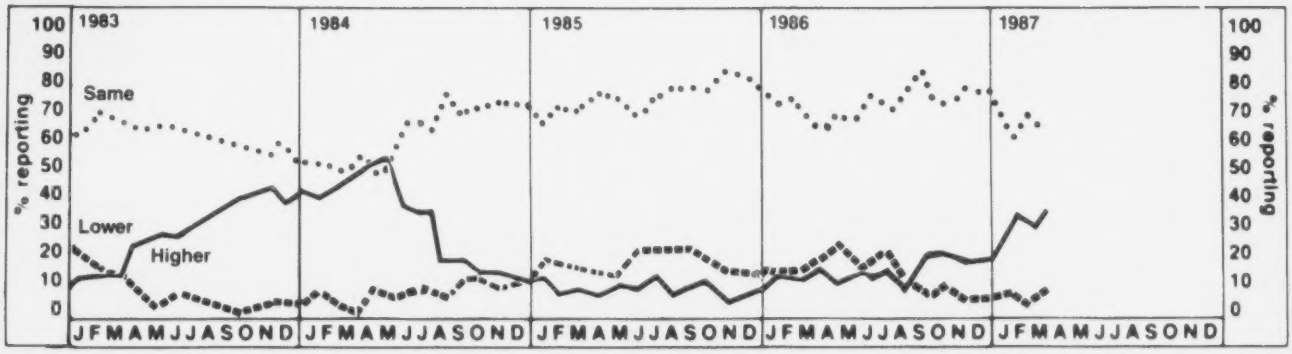
# Inventories




Purchasers have again reduced their inventories. In February, after 29 consecutive months of declining inventories, an equal number of members (19%) reported higher and lower inventories. In March, while 19% again reported lower inventory, only 16% reported higher, a net decline of 3%.

| Inventories % | Higher | Same | Lower | Net |
|---|---|---|---|---|
| March | 16 | 65 | 19 | − 3 |
| February | 19 | 62 | 19 | 0 |
| January | 19 | 56 | 25 | − 6 |

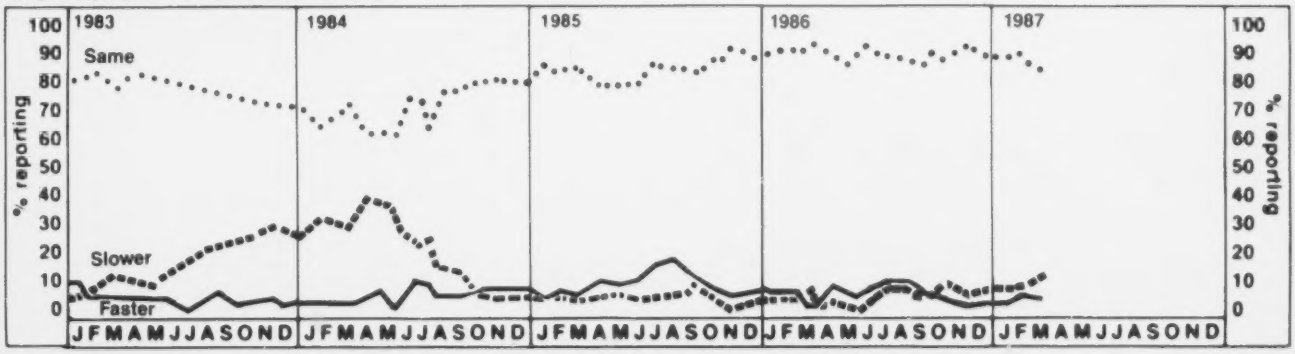
# Prices




March was the seventh consecutive month that more purchasing managers reported paying higher rather than lower prices. The percentages reported in March are identical to those of January. The ratio of those paying higher prices to those paying lower is over 5 to 1.

| Prices % | Higher | Same | Lower | Net |
|---|---|---|---|---|
| March | 32 | 62 | 6 | +26 |
| February | 28 | 69 | 3 | +25 |
| January | 32 | 62 | 6 | +26 |

# Vendor Deliveries




Vendor deliveries slowed in March, a result of the recently settled U.S. Steel strike. Thirteen percent reported slower deliveries, the highest since September 1984 (14%). The net difference between slower (13%) and faster (5%) deliveries is −8%, the most bullish since August 1984. The change is likely the result of an improving economy.

| Vendor Deliveries % | Faster | Same | Slower | Net |
|---|---|---|---|---|
| March | 5 | 82 | 13 | − 8 |
| February | 7 | 84 | 9 | − 2 |
| January | 4 | 88 | 8 | − 4 |

# Specific Commodity Changes

For the second consecutive month, no significant items were reported down in price. Four items were reported in short supply: three chemicals (benzene, butadiene, and phenol) and steel (a consequence of the gradual start up in production at U.S. Steel after a lengthy strike). Numerous plastic resins, plastic producing chemicals, and plastic materials were reported higher in price in March. Paper products were also higher priced, including corrugated shipping containers (the eleventh time in the past 12 months), kraft linerboard and caustic soda, heavily used in making paper. Three metals were also reported higher in price: copper, aluminum (second consecutive month), and steel (the sixth time in the past seven months). In addition to caustic soda and plastic making chemicals, three other widely used chemicals were reported higher in price: benzene, butadiene, and methanol.

**UP in Price:** Corrugated shipping containers, kraft linerboard (used in making corrugated shipping containers), printing paper, caustic soda (used heavily in petroleum refining and paper making), aluminum, copper and copper products, steel, vegetable oils (used in prepared foods), styrene (used chiefly in making synthetic rubber, resins, and plastics), plastic resins and products, phenol and phenolic resins (used in making plastic products for housing and auto products), benzene (used as a chemical solvent and in gasoline), butadiene (used in making synthetic rubber), methanol (used heavily as a solvent and in synthesizing other chemicals)

**DOWN in Price:** None

**In SHORT Supply:** Steel, butadiene, styrene, and phenol

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available May 4, 1987.

# Commodity Reports

## Textiles

*Prepared by the N.A.P.M. Textile Committee; chairman, Gerry Korver, C.P.M., K-Products, Inc., Orange City, Iowa.*

**Cotton, Polyester, Greige Goods**

Fluctuating cotton prices and the continued re-emphasis on domestic manufacturing, contributed to an unusual market during the past several months. Cotton fell to the low thirties and has recently been in the high fifties. This has caused quite a bit of price pressure in both directions. The price increases have been tied to replacement costs of cotton with supply/demand being the major pressure point. Yarn prices are up 10¢ to 15¢ since October. They seem to have leveled temporarily. There is a significant shortage of spinning capacity at the present time with expansion programs being implemented. The impact of these will be seen in late 1987 and early 1988. The product category that seems to be having the most significant impact is fleece. This is primarily in cotton/acrylic and poly/cotton blends.

The polyester and acrylic staple areas appear to be stable in price. There are supply problems that are having to be handled very carefully based upon vendor relationships. The indication is, there are no expected price increases, at least through the first half of the year; if the business climate continues into the second half of this year this will probably change. The nylon and polyester filament areas have not changed a great deal with fabric prices being able to be maintained in the knit areas. The woven areas have seen pressure due to supply demand with nylon and cotton fabrics inching up in the 2% to 3% category.

**Carpet**

The supply of raw materials for carpet manufacturing are adequate with only nylon filament being somewhat tight. Prices of most man-made fibres are mostly steady. Wool is up due to currency exchange. Jute, acrylic, nylon filament, and polyester staple prices are reported flexible.

**Specialty Fabrics and Converting**

The end of 1986 saw specialty and converting with prolonged leadtimes due to the high volume of year-end business. However, now that we are a few months into 1987, that back order position has disappeared completely. Demand will be fair, at best, until spring and then a slight increase which should carry out to fall.

Natural fibers' pricing will show a slight increase in these fabrics; whether that rise in manufacturing cost can be passed along proportionately remains to be seen, due to demand and competition.

## Nonferrous Metals

*Prepared by the N.A.P.M. Nonferrous Metals Committee; chairman, George R. A. Milne, C.P.M., Delta Faucet Company, Indianapolis, Indiana.*

**Nickel**

The price competition between suppliers is fierce! Prices have dropped from about $2.05/lb. to less than $1.95/lb. for plating grade nickel since late December 1986.

Since January 1986, prices have dropped from $2.32/lb. to current levels reflecting soft demand and oversupply. Suppliers predict higher and more stable prices for at least two years. It appears that pricing will remain depressed for the foreseeable future. It looks like producers want to increase price but market conditions continue to depress them.

Russian nickel has been sold in Europe through the LME at extremely low prices since early 1986. This has forced all producers to lower their selling price to move inventory. With current depressed prices, one could predict some closing of facilities.

**Aluminum**

Prices have increased significantly since the first of the year, domestic capacity is at its highest level (74%) since mid- to late-1985, and for every declaration that the industry will have a positive effect in 1987, another states the reverse; furthermore, if it is positive for industry (producers), is it negative for buyers?

The producer's position seems to be in control. Producer inventories are at their lowest point in the past five to six years; worldwide demand is expected to increase 1% to 1.5% in 1987; domestic consumption and exportation are expected to increase a minimal amount.

It is estimated that ingot will increase 2¢ to 3¢ to bring it to the 66¢ to 67¢/lb. range before the third quarter begins. Obviously, silicon alloys will increase proportionately to the 76¢ to 78¢ range. There will be availability, but deliveries will require more lead time. The price of secondary aluminum will keep pace although it could climb upward, depending upon the availability of scrap. The significant increase in the price of UBCs during the past two months may be an indication of the strength and direction of the scrap market for the short-term and especially so, with its increase in market share as compared to primary. It behooves the buyer to continue to develop reliable sources that will service its customers over the long haul. (Ted Campbell, Morris Bean & Company, Yellow Springs, Ohio)

**Tin**

After trading as high as $3.25, tin values have settled back to approximately $3.10. The low price will curtail production and the Association of Tin Producing Countries quota of 96,000 M.T. for export should not be exceeded; and China and Brazil are expected to restrain exports to agreed levels. Prices are expected to hold in the $3.00 to $3.50 range with no shortages foreseen. (John E. Russell, ASEA-Kaiser, Springfield, New Jersey)

**Magnesium**

The auto manufacturers are projecting the increased usage of magnesium by a factor of two over the next five years in automobiles. This is because of improved corrosion resistance developed in the last three to four years (higher purity magnesium alloys). The automotive industry has responded warily to this; however, the aerospace industry is still generally negative about its application there. It may be another two to three years of development of greater corrosion resistance before the aerospace industry finds the material acceptable.

Magnesium is also getting a favorable acceptance in the composite industry (metal matrix composites) but the largest market is still in die casting, aluminum cans, and the desulfurization of steel.

Once the new Norskhydro plant in Canada opens in approximately two years, the supply will exceed projected demand and may push down the pricing of magnesium. However, right now, the pricing will remain stable.

The World Magnesium Conference will be held in May 1987, in Tokyo, Japan. This conference will line up speeches about the present use of magnesium in Japan and cover the trend of magnesium applications in automobiles. (Sharon A. Sinke, C.P.M., Front Inc., Grand Rapids, Michigan)

**Brass and Bronze**

We have recently seen an upward trend in the price of copper. Comex metal was recently quoted at 63¢/lb. Most major brass rod mills are full to capacity for the second quarter. Many mills are quoting six to eight weeks for delivery. How much of this buying is for real demand and what percentage is hedge buying because of the pending labor contracts is unclear. Apparently, we have not learned a lesson from the 1973-74 era of critical shortages. Hedge buying only contributes to longer deliveries and higher prices.

Recently, we have seen brass scrap increase in price and two fabrication increases. It is doubtful that we will see any real increase in the demand for brass and bronze during 1987. The auto industry is considerably down in sales over 1986, and we don't foresee any drastic change in this market. New home starts are also down compared to last year. During the third quarter of 1987, we will see abundant supply of nonferrous materials. (Edward M. Straka, C.P.M., Baldwin Hardware Corporation, Reading, Pennsylvania)